

**REPORT OF THE AUDIT OF THE  
TAYLOR COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE TAYLOR COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**

The Auditor of Public Accounts has completed the Taylor County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Cash balances decreased by \$432,459 from the beginning of the year, resulting in a cash surplus of \$867,139 as of June 30, 2002.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$480,524 as of June 30, 2002. Future principal and interest payments of \$535,706 are needed to meet these obligations.

#### **Report Comment:**

- Fiscal Court Should Implement Policies To Monitor Subrecipient's Federal Funds

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Eddie Rogers, Taylor County Judge/Executive  
Members of the Taylor County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Taylor County, Kentucky as of June 30, 2002, and the statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Taylor County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation. Other auditors whose report has been furnished to us audited those financial statements, and our opinion, insofar as it relates to the amounts included for the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Taylor County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Taylor County, Kentucky as of June 30, 2002 and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky  
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In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2002 on our consideration of Taylor County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Taylor County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- Fiscal Court Should Implement Policies To Monitor Subrecipient's Federal Funds

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
November 22, 2002

TAYLOR COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

Eddie Rogers	County Judge/Executive
Bobby Kirtley	Magistrate
Orville Newton	Magistrate
James E. Cochran	Magistrate
Marshall Caulk	Magistrate
Edward R. Gorin	Magistrate
J. W. McFarland	Magistrate

**Other Elected Officials:**

Craig Cox	County Attorney
Rodney Burress	Jailer
Randall G. Phillips	County Clerk
Sam Newcomb	Circuit Court Clerk
John E. Shipp	Sheriff
Julie Shields	Property Valuation Administrator
Terry M. Dabney	Coroner

**Appointed Personnel:**

Maxine White	County Treasurer
Sherry Kerr	Occupational Tax Collector
Debra McNear	Finance Officer



STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS



TAYLOR COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		Totals (Memorandum Only) Primary Government
	<u>General</u>	<u>Special Revenue</u>	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash	\$ 620,375	\$ 246,764	\$ 867,139
Restricted Cash-			
Payroll Revolving Account	939		939
Deferred Compensation Account	1,048		1,048
Total Assets	<u>\$ 622,362</u>	<u>\$ 246,764</u>	<u>\$ 869,126</u>
<u>Other Resources</u>			
Amounts to be Provided in Future Years:			
Lease Principal	\$ 480,524	\$	\$ 480,524
Total Other Resources	<u>\$ 480,524</u>	<u>\$ 0</u>	<u>\$ 480,524</u>
Total Assets and Other Resources	<u><u>\$ 1,102,886</u></u>	<u><u>\$ 246,764</u></u>	<u><u>\$ 1,349,650</u></u>

The accompanying notes are an integral part of the financial statements.

TAYLOR COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

	<u>Governmental Fund Types</u>		Totals
	<u>General</u>	<u>Special Revenue</u>	(Memorandum Only) Primary Government
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Leases (Note 4)	\$ 480,524	\$	\$ 480,524
Payroll	939		939
Deferred Compensation	1,048		1,048
Total Liabilities	<u>\$ 482,511</u>	<u>\$ 0</u>	<u>\$ 482,511</u>
<u>Equity</u>			
Fund Balances:			
Reserved	\$ 831	\$ 128,064	\$ 128,895
Unreserved	619,544	118,700	738,244
Total Equity	<u>\$ 620,375</u>	<u>\$ 246,764</u>	<u>\$ 867,139</u>
Total Liabilities and Equity	<u>\$ 1,102,886</u>	<u>\$ 246,764</u>	<u>\$ 1,349,650</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

TAYLOR COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 9,798,492	\$ 8,010,868	\$ 992,016	\$ 100,083
Other Financing Sources:				
Transfers In	1,011,394		359,859	651,535
Kentucky Advance Revenue Program	1,961,600	1,885,800	75,800	
Total Cash Receipts	<u>\$ 12,771,486</u>	<u>\$ 9,896,668</u>	<u>\$ 1,427,675</u>	<u>\$ 751,618</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 10,097,859	\$ 7,208,167	\$ 1,266,541	\$ 735,471
Other Financing Uses:				
Lease Principal	133,092	104,734	18,342	
Transfers Out	1,011,394	1,011,394		
Kentucky Advance Revenue Program Repaid	1,961,600	1,885,800	75,800	
Total Cash Disbursements	<u>\$ 13,203,945</u>	<u>\$ 10,210,095</u>	<u>\$ 1,360,683</u>	<u>\$ 735,471</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (432,459)	\$ (313,427)	\$ 66,992	\$ 16,147
Cash Balance - July 1, 2001	<u>1,299,598</u>	<u>650,283</u>	<u>136,670</u>	<u>53,489</u>
Cash Balance - June 30, 2002	<u>\$ 867,139</u>	<u>\$ 336,856</u>	<u>\$ 203,662</u>	<u>\$ 69,636</u>

The accompanying notes are an integral part of the financial statements.

TAYLOR COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

General Fund Types		Special Revenue Fund Types			
Local Government Economic Assistance Fund	Fire Protection Fund	Community Development Block Grant Fund	Special Fund	Pride Fund	State Fund
\$ 8,630	\$ 1,105	\$	\$ 44,726	\$ 24,800	\$ 82,082
\$ 8,630	\$ 1,105	\$	\$ 44,726	\$ 24,800	\$ 82,082
\$ 1,809	\$ 1,000	\$ 5	\$ 44,159	\$ 20,000	\$ 123,749
\$ 1,809	\$ 1,000	\$ 5	\$ 44,159	\$ 20,000	\$ 123,749
\$ 6,821	\$ 105	\$ (5)	\$ 567	\$ 4,800	\$ (41,667)
2,569	726	5	5,541		41,667
\$ 9,390	\$ 831	\$ 0	\$ 6,108	\$ 4,800	\$ 0

The accompanying notes are an integral part of the financial statements.

TAYLOR COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

	Special Revenue Fund Types			
	Adanta Fund	Tebbs Bend Fund	Wireless Fund	Kentucky Agency On Substance Abuse Prevention Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 402,621	\$ 10,107	\$ 71,454	\$ 50,000
Other Financing Sources:				
Transfers In				
Kentucky Advance Revenue Program				
Total Cash Receipts	<u>\$ 402,621</u>	<u>\$ 10,107</u>	<u>\$ 71,454</u>	<u>\$ 50,000</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 402,621	\$ 289,438	\$ 1,362	\$ 3,537
Other Financing Uses:				
Lease Principal			10,016	
Transfers Out				
Kentucky Advance Revenue Program Repaid				
Total Cash Disbursements	<u>\$ 402,621</u>	<u>\$ 289,438</u>	<u>\$ 11,378</u>	<u>\$ 3,537</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 0	\$ (279,331)	\$ 60,076	\$ 46,463
Cash Balance - July 1, 2001		350,024	58,624	
Cash Balance - June 30, 2002	<u>\$ 0</u>	<u>\$ 70,693</u>	<u>\$ 118,700</u>	<u>\$ 46,463</u>

The accompanying notes are an integral part of the financial statements.

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Taylor County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation as part of the reporting entity.

The Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation is a legally separate entity. The fiscal court is able to impose its will on the hospital's governing body and is entitled to any assets if the hospital is sold. Therefore, management has included this entity as a component unit, and the entity financial activity is discretely presented in Appendix B.

Additional - Taylor County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Taylor County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Taylor County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Taylor County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and Fire Protection Fund.

TAYLOR COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Taylor County Special Revenue Fund Type includes the following county funds: Community Development Block Grant Fund, Special Fund, Pride Fund, State Fund, Adanta Fund, Tebbs Bend Fund, Wireless Fund, and Kentucky Agency On Substance Abuse Prevention Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Taylor County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

TAYLOR COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2002  
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Lease Agreements

- A. On July 29, 1997, the Taylor County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of Sheriff's cars and equipment. The principal was \$49,833 at a variable rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2002 is \$1,770. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year</u> <u>Ended</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
June 30, 2003	<u>\$ 10</u>	<u>\$ 1,770</u>

TAYLOR COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2002  
 (Continued)

Note 4. Lease Agreements (Continued)

B. On June 7, 1999, the Taylor County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of rescue vehicles. The principal was \$59,952 at a variable rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2002 is \$25,424. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2003	\$ 732	\$ 12,427
June 30, 2004	<u>261</u>	<u>12,997</u>
Totals	<u>\$ 993</u>	<u>\$ 25,424</u>

C. On August 2, 1999, the Taylor County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of dump trucks. The principal was \$92,580 at a variable rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2002 is \$42,435. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2003	\$ 1,248	\$ 19,072
June 30, 2004	<u>542</u>	<u>23,363</u>
Totals	<u>\$ 1,790</u>	<u>\$ 42,435</u>

TAYLOR COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2002  
 (Continued)

Note 4. Lease Agreements (Continued)

- D. On October 14, 1999, the Taylor County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of equipment for 911. The principal was \$300,000 at a variable rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2002 is \$147,757. Lease payment requirements excluding anticipated interest rebate from KACoLT are:

Fiscal Year Ended	Scheduled Interest	Scheduled Principal
June 30, 2003	\$ 4,462	\$ 61,419
June 30, 2004	2,119	63,744
June 30, 2005	170	22,594
Totals	<u>\$ 6,751</u>	<u>\$ 147,757</u>

- E. On April 4, 2001, the Taylor County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of equipment for 911. The principal was \$81,000 at a variable rate for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2002 is \$66,000. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended	Scheduled Interest	Scheduled Principal
June 30, 2003	\$ 2,219	\$ 16,000
June 30, 2004	1,621	16,000
June 30, 2005	1,007	17,000
June 30, 2006	370	17,000
Totals	<u>\$ 5,217</u>	<u>\$ 66,000</u>

TAYLOR COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2002  
 (Continued)

Note 4. Lease Agreements (Continued)

- F. On April 4, 2001, the Taylor County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease agreement was for the purchase of a fire truck. The principal was \$215,138 at a variable rate for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2002 is \$197,138. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended	Scheduled Interest	Scheduled Principal
June 30, 2003	\$ 7,984	\$ 18,000
June 30, 2004	7,208	19,000
June 30, 2005	6,391	20,000
June 30, 2006	5,532	21,000
June 30, 2007	4,630	22,000
June 30, 2008-2011	8,676	97,138
Totals	<u>\$ 40,421</u>	<u>\$ 197,138</u>

Note 5. Inter-Creditor and Subordination Agreement

The county entered into an inter-creditor and subordination agreement dated February 16, 1999 with the City of Campbellsville, the Campbellsville/Taylor County Industrial Development Authority (Authority), Community Trust Bank, Lake Cumberland Area Development District and Campbellsville Apparel Company LLC for the purpose of assisting Campbellsville Apparel Company, LLC Start-Up Project. The Authority had purchased real property and equipment with funds received by the City/County with a Community Development Block Grant (CDBG) in the principal amounts of \$812,500 and \$162,500 respectively. The County holds a co-second mortgage/lien on real estate and equipment until such time as the requirements of the CDBG funds are met and the Department for Local Government has approved the project closeout.

Note 6. Insurance

For the fiscal year ended June 30, 2002, Taylor County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



TAYLOR COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Types</u>			
General Fund	\$ 7,858,416	\$ 8,010,868	\$ 152,452
Road and Bridge Fund	876,691	992,016	115,325
Jail Fund	96,903	100,083	3,180
Local Government Economic Assistance Fund	2,050	8,630	6,580
Fire Protection Fund	1,000	1,105	105
<u>Special Revenue Fund Types</u>			
Community Development Block Grant Fund	75,000		(75,000)
Special Fund	52,702	44,726	(7,976)
Pride Fund	20,000	24,800	4,800
State Fund	211,666	82,082	(129,584)
Adanta Fund	584,457	402,621	(181,836)
Tebbs Bend Fund	83,600	10,107	(73,493)
Kentucky Agency On Substance Abuse Prevention Fund	50,000	50,000	
Wireless Fund	49,743	71,454	21,711
Totals	<u>\$ 9,962,228</u>	<u>\$ 9,798,492</u>	<u>\$ (163,736)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 9,962,228
Add: Budgeted Prior Year Surplus			1,057,943
Less: Other Financing Uses			<u>(221,017)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 10,799,154</u>

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SCHEDULE OF OPERATING REVENUE



TAYLOR COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>		
	Totals (Memorandum Only)	General Fund Types	Special Revenue Fund Types
Taxes	\$ 3,020,213	\$ 3,020,213	\$
In Lieu Tax Payments	38,048	38,048	
Excess Fees	131,915	131,915	
Licenses and Permits	92,965	92,965	
Intergovernmental Revenues	1,971,163	1,289,921	681,242
Charges for Services	38,889	38,889	
Miscellaneous Revenues	4,420,481	4,420,481	
Interest Earned	84,818	80,270	4,548
Total Operating Revenue	<u>\$ 9,798,492</u>	<u>\$ 9,112,702</u>	<u>\$ 685,790</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



TAYLOR COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 952,902	\$ 891,525	\$ 61,377
Protection to Persons and Property	1,491,552	1,461,180	30,372
General Health and Sanitation	155,002	153,393	1,609
Social Services	9,100	5,585	3,515
Recreation and Culture	154,163	149,461	4,702
Transportation Facilities and Services	11,850	11,539	311
Roads	1,211,715	1,147,993	63,722
Airports	55,000	54,754	246
Debt Service	6,635	406	6,229
Capital Projects	10,000	7,691	2,309
Administration	5,361,977	5,329,461	32,516
 Total Operating Budget - General Fund Types	 \$ 9,419,896	 \$ 9,212,988	 \$ 206,908
 Other Financing Uses: Principal on Leases	 211,000	 123,076	 87,924
 TOTAL BUDGET - GENERAL FUND TYPES	 \$ 9,630,896	 \$ 9,336,064	 \$ 294,832

TAYLOR COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 39,726	\$ 1,362	\$ 38,364
General Health and Sanitation	20,000	20,000	
Social Services	1,068,081	695,596	372,485
Administration	251,451	167,913	83,538
Total Operating Budget - Special Revenue Fund Types	\$ 1,379,258	\$ 884,871	\$ 494,387
Other Financing Uses:			
Principal on Leases	10,017	10,016	1
TOTAL BUDGET - SPECIAL REVENUE FUND TYPES	\$ 1,389,275	\$ 894,887	\$ 494,388

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Eddie Rogers, Taylor County Judge/Executive  
Members of the Taylor County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Taylor County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 22, 2002. We did not audit the financial statements of the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation. Other auditors whose report has been furnished to us audited those financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Taylor County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Taylor County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
November 22, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Eddie Rogers, Taylor County Judge/Executive  
Members of the Taylor County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Taylor County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Taylor County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Taylor County's management. Our responsibility is to express an opinion on Taylor County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Taylor County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Taylor County's compliance with those requirements.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

In our opinion, Taylor County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

Reference Number 2002-1

- Fiscal Court Should Implement Policies To Monitor Subrecipient's Federal Funds

Internal Control Over Compliance

The management of Taylor County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Taylor County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Taylor County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

Reference Number 2002-1

- Fiscal Court Should Implement Policies To Monitor Subrecipient's Federal Funds

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition referred to above to be a material weakness.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
November 22, 2002

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FINDINGS AND QUESTIONED COSTS



TAYLOR COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Taylor County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Taylor County were disclosed during the audit.
4. We noted one reportable condition relating to the audit of the major federal award program in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Taylor County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Taylor County are reported in Part C of this schedule.
7. One program was tested as major program: Target Capacity Expansion CFDA #93.230
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Taylor County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

Reference Number 2002-1

Fiscal Court Should Implement Policies To Monitor Subrecipient's Federal Funds

The Taylor County Fiscal Court engaged a grant administrator to monitor the Abuse Treatment Women's Recovery Project Grant. A written contract was not prepared stating the responsibilities of the grant administrator. The grant administrator attended scheduled advisory council meetings, approved and submitted draw down requests of federal funds, and maintained a grant work plan. In submitting a draw down request of federal funds, the grant administrator would receive an e-mail each month from the subrecipient.

Based on this e-mail alone, federal funds were distributed to the subrecipient. There was no other documentation examined by the grant administrator to support the expenditure of federal funds. During fiscal year ended June 30, 2002, the grant administrator was paid \$31,740 to perform the services noted above.

TAYLOR COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
 AUDIT (Continued)

Reference Number 2002-1 (Continued)

Fiscal Court Should Implement Policies To Monitor Subrecipient's Federal Funds (Continued)

The Single Audit Act Amendments of 1996 Section 7502(f)(2) requires each pass-through entity to:

- a) Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; and
- b) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity.

No one representing the fiscal court conducted any site visits, limited scope audits, reviewed supporting documentation for expenditures, or reviewed the audit report conducted in accordance with United States Office and Management Budget Circular Number - A133, which was obtained by the subrecipient (Adanta).

We recommend that the Taylor County Fiscal Court establish written polices to:

- a) Monitor cash management activities to provide supervisory approval and proper supporting documentation of reimbursement requests;
- b) Set responsibility and provide the procedures for the periodic monitoring, verification and reporting of program progress and accomplishments;
- c) Implement procedures for the review of subrecipient audit reports and the methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control;
- d) Enter into a written contract stating the responsibilities of the grant administrator;
- e) Enter into a written contract between the fiscal court and the subrecipient (Adanta); and
- f) Approve all draw down requests of federal funds and subsequent payments to the subrecipient. The Fiscal Court should submit the draw down request.

*County Judge/Executive Eddie Rogers' Response:*

*From this day forward, all documentations & reimbursements will be monitored by FC. Will get w/ Co Atty. to draw up contract between FC & Adanta - A contact stating the responsibilities of grant administrator.*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



TAYLOR COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Targeted Capacity Expansion (CFDA #93.230)	6H79T112354	\$ 402,621
 <u>National Oceanic and Atmospheric Administration, U. S. Department of Commerce</u>		
Direct Program:		
Personal Responsibility In A Desirable Environment (CFDA #11.469)	CF00-47	<u>20,000</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 422,621</u></u>

TAYLOR COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

Note 2 - The federal expenditures for Targeted Capacity Expansion consist of payments to the following subrecipient:

<u>Subrecipient</u>	<u>Number</u>	<u>Pass-Through Grant Amount</u>
Adanta	6H79T112354	<u>\$ 402,621</u>

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

TAYLOR COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

**CERTIFICATION OF COMPLIANCE**

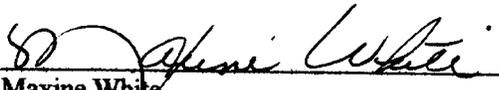
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**TAYLOR COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2002**

The Taylor County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Eddie Rogers  
County Judge/Executive

  
\_\_\_\_\_  
Maxine White  
County Treasurer

TAYLOR COUNTY HOSPITAL DISTRICT  
AND TAYLOR COUNTY HOSPITAL DISTRICT HEALTH FACILITY CORPORATION

For The Fiscal Year Ended June 30, 2002

COMBINED FINANCIAL STATEMENTS

Taylor County Hospital District and Taylor County Hospital District  
Health Facility Corporation

Years ended June 30, 2002 and 2001 with Report of Independent Auditors

Taylor County Hospital District and  
Taylor County Hospital District  
Health Facility Corporation

Combined Financial Statements

Years ended June 30, 2002 and 2001

**Contents**

Report of Independent Auditors.....	1
Combined Financial Statements	
Combined Balance Sheets.....	2
Combined Statements of Operations and Changes in Fund Balance.....	4
Combined Statements of Cash Flows .....	6
Notes to Combined Financial Statements .....	8

## Report of Independent Auditors

Board of Trustees  
Taylor County Hospital District

We have audited the accompanying general-purpose combined financial statements of the Taylor County Hospital District and Taylor County Hospital District Health Facility Corporation (the Hospital) as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of June 30, 2002 and 2001, and the combined results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the period ended September 6, 2002 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



September 6, 2002

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Combined Balance Sheets

	June 30	
	2002	2001
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,687,727	\$ 3,471,412
Patient accounts receivable, less allowance for uncollectible accounts of \$3,161,000 in 2002 and \$3,032,000 in 2001	6,405,247	5,560,496
Inventories	563,381	479,648
Prepaid expenses and other current assets	547,757	544,604
Total current assets	11,204,112	10,056,160
Assets limited as to use:		
By Board of Trustees:		
Depreciation reserve fund	11,541,920	8,549,814
Retirement funds and unemployment compensation	519,658	507,722
Total assets limited as to use	12,061,578	9,057,536
Property and equipment:		
Land	411,362	411,362
Building and improvements	13,819,596	13,848,942
Equipment	16,807,712	16,338,719
	31,038,670	30,599,023
Less accumulated depreciation and amortization	20,640,125	18,924,112
	10,398,545	11,674,911
Construction in progress	953,772	-
Net property and equipment	11,352,317	11,674,911
Investment in JHHN Regional Service Center	505,000	405,000
Prepaid pension cost	136,840	122,804
Other assets	529,447	65,945
Total assets	\$ 35,789,294	\$ 31,382,356

	June 30	
	2002	2001
<b>Liabilities and fund balance</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,982,919	\$ 1,092,810
Accrued salaries, wages and withholdings	834,001	606,222
Accrued vacation and sick leave	686,314	619,747
Estimated amounts payable to Medicare and Medicaid	1,868,544	1,865,733
Current portion of long-term obligations	5,520	195,174
Total current liabilities	<u>5,377,298</u>	<u>4,379,686</u>
Long-term obligations, less current portion	2,889	8,899
Fund balance	30,409,107	26,993,771

Total liabilities and fund balance	<u><u>\$ 35,789,294</u></u>	<u><u>\$ 31,382,356</u></u>
------------------------------------	-----------------------------	-----------------------------

*See accompanying notes.*

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Combined Statements of Operations and Changes in Fund Balance

	<b>Year ended June 30</b>	
	<b>2002</b>	<b>2001</b>
Unrestricted revenues:		
Net patient service revenue	\$ 36,251,685	\$ 31,649,208
Other revenue	534,707	484,882
Total unrestricted revenues	36,786,392	32,134,090
Expenses:		
Salaries and wages	11,889,549	10,707,433
Employee benefits	3,352,812	2,925,768
Supplies	6,311,706	6,154,987
Purchased services	1,366,110	1,179,180
Professional fees	2,260,359	1,878,177
Depreciation and amortization	2,136,804	2,148,617
Interest	2,703	13,941
Provision for bad debts	2,711,759	2,449,613
Provider tax expense	907,722	751,571
Other	3,709,201	3,363,276
Total expenses	34,648,725	31,572,563
Operating income	2,137,667	561,527
Nonoperating gains		
Equity in gains of JHHN Regional Service Center	100,000	116,000
Other nonoperating gains	541,294	644,465
Excess of revenues over expenses, before ad valorem tax revenue and other	2,778,961	\$1,321,992

*Continued*

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Combined Statements of Operations and Changes in Fund Balance  
(continued)

	<b>Year ended June 30</b>	
	<b>2002</b>	<b>2001</b>
Excess of revenues over expenses, before ad valorem tax revenue and losses	\$ 2,778,961	\$ 1,321,992
Ad valorem tax revenue	616,603	574,536
Excess of revenues over expenses	3,395,564	1,896,528
Contributions for capital equipment	19,772	31,091
Increase in fund balance	3,415,336	1,927,619
Fund balance, beginning of year	26,993,771	25,066,152
Fund balance, end of year	\$ 30,409,107	\$ 26,993,771

*See accompanying notes.*

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Combined Statements of Cash Flows

	Year ended June 30	
	2002	2001
<b>Cash flows from operating activities</b>		
Excess of revenues over expenses	3,395,564	1,896,528
Ad valorem tax considered financing activity	(616,603)	(574,536)
Interest expense considered financing activity	2,703	13,941
Investment income considered investing activity	(475,494)	(585,915)
Equity gains of JHHN Regional Service Center	(100,000)	(116,000)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Provision for bad debts	2,711,759	2,449,613
Depreciation and amortization	2,136,804	2,148,617
Other changes in operating assets and liabilities:		
Patient accounts receivable	(3,556,510)	(2,113,335)
Other current assets	(86,886)	(146,317)
Other assets	(477,538)	(28,939)
Amounts payable to Medicare and Medicaid	2,811	622,586
Other current liabilities	1,184,455	(522,907)
Net cash provided by operating activities	4,121,065	3,043,336
<b>Cash flows from capital and related financing activities</b>		
Ad valorem tax	616,603	574,536
Donations of equipment and other contributions	19,772	31,091
Net additions to property and equipment	(1,814,210)	(2,429,307)
Additional borrowings	-	19,729
Payments on long-term debt	(195,664)	(88,361)
Interest on long-term debt	(2,703)	(13,941)
Net cash used in capital and related financing activities	(1,376,202)	(1,906,253)

*Continued*

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Combined Statements of Cash Flows (continued)

	<b>Year ended June 30</b>	
	<b>2002</b>	<b>2001</b>
<b>Cash flows from investing activities</b>		
Investment earnings	475,494	585,915
Investment in JHHN Regional Service Center	-	11,810
Change in assets limited as to use	<u>(3,004,042)</u>	<u>(850,653)</u>
Net cash used in investing activities	<b>(2,528,548)</b>	<b>(252,928)</b>
Net increase in cash and cash equivalents	216,315	884,155
Cash and cash equivalents, beginning of year	<u>3,471,412</u>	<u>2,587,257</u>
Cash and cash equivalents, end of year	<b><u>\$ 3,687,727</u></b>	<b><u>3,471,412</u></b>
<b>Supplemental disclosure of non-cash investing activity</b>		
Contribution of inventory to JHHN Regional Service Center	<b>\$ -</b>	<b>\$ 188,810</b>

*See accompanying notes.*

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements

June 30, 2002

**1. Organization and Background**

The accompanying combined financial statements include the accounts of Taylor County Hospital District (the District) and Taylor County Hospital District Health Facility Corporation (the Corporation), both of which are commonly controlled, nonprofit corporations.

The District was created for the purpose of operating Taylor County Hospital (the Hospital). The entities are collectively referred to as the Hospital. The Hospital receives certain ad valorem taxes levied by the District and collected by the Fiscal Court of Taylor County. The Corporation was formed for the purpose of issuing long-term debt in connection with the Hospital's construction. The Fiscal Court of Taylor County appoints the Board of Trustee members of the District.

**Basis of Presentation**

Under the provisions of the American Institute of Certified Public Accountants Audit and Accounting Guide, *Health Care Organizations* (the Guide), the Hospital is considered a governmental organization and is subject to the pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements.

**Agreement with MedGroup Management, Inc.**

The Hospital has an agreement with MedGroup Management, Inc. (an affiliate of Jewish Hospital HealthCare Services, Inc.) to provide management services. The term of the agreement is five years. Management fees were approximately \$400,000 and \$298,388 for 2002 and 2001, respectively.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**2. Accounting Policies**

**Proprietary Fund Accounting**

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include certain highly liquid investments with a maturity at the time of acquisition of three months or less. Bank accounts and certificates-of-deposit are maintained at levels that are fully insured by the Federal Deposit Insurance Corporation (FDIC).

**Inventories**

Inventories (principally pharmaceuticals and supplies) are valued at the lower of cost (first-in, first-out method) or market.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**2. Accounting Policies (continued)**

**Assets Limited as to Use**

Assets limited as to use include assets set aside by the Board for replacement, expansion or improvement of Hospital facilities or for payment of retirement and unemployment compensation benefits. The assets, which are principally comprised of certificates of deposit and interest bearing money market accounts, are stated at cost, which approximates fair value and are registered in the Hospital's name.

Interest earnings from assets limited as to use are recorded as nonoperating revenue.

**Property and Equipment and Depreciation**

Property and equipment is recorded at cost, if purchased, or at fair market value at the date of the gift, if donated. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets.

**Statements of Operations**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenues on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**2. Accounting Policies (continued)**

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy. Charity care is not reported as net patient service revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. Charges for services furnished under the charity care policy at established rates were approximately \$760,000 and \$525,000 for 2002 and 2001, respectively.

**Functional Expenses**

The Hospital's general and administrative costs represented approximately 11% and 12% of total operating expenses in 2002 and 2001, respectively.

**Ad Valorem Taxes**

The Hospital received approximately 2% of its revenues from ad valorem taxes in 2002 and 2001. Such tax receipts are board designated for replacement, expansion and improvement of Hospital facilities and debt service of the Hospital. These funds were used as follows:

	<u>2002</u>	<u>2001</u>
Percentage used for debt service on long-term obligations	0%	0%
Percentage used for capital-related expenditures	100%	100%

The Hospital allows reductions to patient billings to the extent of taxes paid by the patient (up to a lifetime maximum of \$1,000). The Hospital allowed reductions of approximately \$116,000 and \$115,000 in 2002 and 2001, respectively, which are reported as reductions of gross patient service revenue.

**Tax-Exempt Status**

Pursuant to a determination letter dated March 23, 1992, the Hospital is considered tax-exempt under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in section 501(c)(3) of the Code.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**2. Accounting Policies (continued)**

**Reclassifications**

Certain 2001 amounts have been reclassified in the combined financial statements to conform with 2002 classifications.

**3. Medicare and Medicaid**

The Hospital participates in the Medicare and Medicaid programs (the Programs). During 2002, approximately 34% and 11%, respectively, of net patient service revenue was derived from services to patients covered by these Programs. Comparable percentages for 2001 were approximately 35% and 9%, respectively. In the health care industry, laws and regulations governing the Programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines and penalties. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Reimbursement from the Programs is determined from annual cost reports that are subject to audit by the Programs. The Hospital's management believes that amounts recorded in the financial statements for estimated settlements will approximate the final settlements for unsettled cost reports.

**Medicare**

The Medicare program reimburses the Hospital for inpatient acute services based upon the patient's diagnosis (DRG). The diagnosis upon which payment is based is subject to review by Program representatives. Most outpatient services related to Medicare Beneficiaries are paid at prospectively determined rates per service. Home health services are reimbursed at prospectively determined rates per episode. The Hospital's cost reports have been audited and settled through June 30, 2000.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**3. Medicare and Medicaid (continued)**

**Medicaid**

Medicaid reimburses the Hospital on a prospectively determined rate per patient day (which is derived from Medicaid's defined cost) for inpatient services and based upon cost for outpatient and home health services. Payments for such services are subject to audit by the Medicaid Program. Provision has been made for adjustments, if any, resulting from such audits.

The Commonwealth of Kentucky imposes a tax on health care providers at a rate of 2.5% for inpatient and outpatient revenue, as defined. Additionally, the legislation provides for a system of reimbursement for services provided to certain indigent patients. Transactions under this program for 2002 and 2001 were as follows:

	2002	2001
Payments received (or accrued) from KHCP included in net patient service revenue	\$ 347,666	\$ 273,060
Kentucky Provider Tax Program payments	\$ 907,772	\$ 751,571

**4. Accounts Receivable**

The Hospital provides services on account without collateral from its patients, most of whom are local residents. The mix of receivables from patients and third-party payors at June 30, 2002 and 2001 was as follows:

	2002	2001
Medicare	12%	10%
Medicaid	9%	8%
Anthem/Blue Cross	12%	8%
Private pay	42%	49%
Other	25%	25%
Total	100%	100%

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**5. Investment in JHHN Regional Service Center**

During fiscal 2000, the Hospital acquired a 5% interest in JHHN Regional Service Center (the RSC) through a cash payment of \$161,000 and a commitment to transfer inventory with a value of approximately \$172,000 in the future. During fiscal 2001, the Hospital transferred inventory with a book value of approximately \$189,000 and was reimbursed by the RSC for the difference between the actual value of the inventory transferred and the amount committed which amounted to approximately \$12,000. The RSC is a partnership that operates as a regional warehouse and distribution center. The Hospital's investment in the RSC is accounted for on the equity method as it is operated for the mutual benefit of the members of the joint venture. The Hospital purchased supplies from the RSC totaling \$1,502,000 and \$1,342,500 in fiscal years 2002 and 2001, respectively.

**6. Long-Term Obligations**

Long-term obligations at June 30, 2002 and 2001 consist of:

	2002	2001
Note payable to bank	\$ -	\$ 189,909
Capital lease	8,409	14,164
	8,409	204,073
Less current portion	5,520	195,174
	\$ 2,889	\$ 8,899

The capital lease is payable in monthly installments of \$525, including principal and interest at 4.75%, through November 2003.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**7. Retirement Plan**

**Pension Plan Description**

The Taylor County Hospital District Health Facility Pension Plan (the Plan) is a single-employer defined benefit pension plan administered by the Principal Mutual Life Insurance Company covering substantially all of the Hospital's employees. The Plan provides retirement, disability and death benefits to plan participants and beneficiaries. The Hospital reserves the right to amend the Plan at any time. If the Plan is terminated, the plan assets will be distributed among the plan participants based upon a priority allocation procedure. The Hospital would then be liable for any unfunded vested benefits to the extent required by law.

**Funding Policy**

The contributions of the Hospital to the Plan meet the minimum funding requirements established by the Plan. The entire cost of the Plan is borne by the Hospital. Therefore, active plan members are not required to contribute to the Plan. The Hospital is required to contribute at actuarially determined amounts.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**7. Retirement Plan (continued)**

**Annual Pension Cost and Net Pension Obligation**

The Hospital's annual pension cost and net pension obligation of the Plan for the years ended June 30, 2002 and 2001 were as follows:

	2002	2001
Annual required contribution	\$ 157,031	\$ 166,672
Interest on net pension obligation	(9,824)	1,015
Adjustment to annual required contribution	30,757	(3,177)
Adjustment to unrecognized service cost	108,000	-
Annual pension cost	285,964	164,510
Contributions made	(300,000)	(300,000)
Decrease in net pension obligation	(14,036)	(135,490)
Net pension obligation, beginning of year	(122,804)	12,686
Net pension (prepayment) obligation, end of year	\$ (136,840)	\$ (122,804)

The annual required contributions for the years ended June 30, 2002 and 2001 and estimated liabilities as of January 1, 2002 and 2001 were determined as part of the actuarial valuations using the projected unit credit actuarial cost method. The actuarial assumptions used at January 1, 2002 and 2001 were as follows:

	2002	2001
Investment rate of return	8%	8%
Projected salary increases (retirement plan only)	4%	4%
Discount rate	8%	8%

The market value of plan assets is used to determine the actuarial value of assets as part of the funding method. The unfunded actuarial accrued liability is being amortized as a level dollar amount in accordance with ERISA amortization periods.

Taylor County Hospital District and  
Taylor County Hospital District Health Facility Corporation

Notes to Combined Financial Statements (continued)

**7. Retirement Plan (continued)**

**Three-Year Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Prepayment)
June 30, 2000	\$ 174,227	111%	\$ 12,686
June 30, 2001	\$ 164,510	182%	\$ (122,804)
<b>June 30, 2002</b>	<b>\$ 285,964</b>	<b>105%</b>	<b>\$ (136,840)</b>

**Schedule of Funding Progress**

*(Dollars in Thousands)*

Valuation Date	Actuarial Valuation Plan Assets	Actuarial Accrued Liability	Total Unfunded Actuarial Accrued Liability (Funding Excess) UAAL (FE)	Funded Ratio	Annual Covered Payroll	UAAL (FE) as a Percentage of Covered Payroll
January 1, 2000	\$ 4,220	\$ 3,736	\$ (484)	112.9%	\$ 9,244	(5.2)%
January 1, 2001	\$ 4,514	\$ 4,061	\$ (454)	111.2%	\$ 10,005	(4.5)%
<b>January 1, 2002</b>	<b>\$ 4,922</b>	<b>\$ 4,902</b>	<b>\$ (20)</b>	<b>100.4%</b>	<b>\$ 10,693</b>	<b>(0.2)%</b>

**8. Contingencies and Commitment**

The Hospital is insured against professional liability (malpractice) claims under a claims-made basis insurance policy. Liabilities for incurred but not reported losses are not determinable; however, in the opinion of management, such liabilities, if any, would not have a material effect on the Hospital's financial statements for the years ended June 30, 2002 and 2001. In the opinion of management, malpractice and general liability insurance coverage is adequate to cover losses, if any.

